

## Message Text

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CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 TAR-01

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7781

INFO USDEL MTN GENEVA

USMISSION EC BRUSSELS

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AMCONSUL BORDEAUX

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 5992, MARCH 7, 1975

1. SUMMARY. FRENCH ECONOMIC OUTLOOK - AS WELL AS  
GOV ECONOMIC POLICY - CONTINUES TO PRESENT AMBIGUITIES  
AND SEEMING CONTRADICTIONS. AS FAR AS CAN BE DISCERNED,  
HOWEVER, MAIN THEMES APPEAR TO BE: (1) PROSPECT OF  
SLUGGISH PERFORMANCE BY FRENCH ECONOMY THROUGHOUT 1975,  
CONTRARY TO EARLIER HOPES THAT CORNER HAD BEEN TURNED;  
AND (2) CONTINUED GOV ADHERENCE TO RESTRICTIVE ANTI-  
INFLATIONARY POLICIES, EMBELLISHED FROM TIME TO TIME  
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WITH "SMALL STEPS" TO BUOY UP INDUSTRY SUCH AS THOSE

ANNOUNCED MARCH 17 BY FINANCE MINISTER FOURCADE. OFFICIAL FIGURES FOR FEBRUARY SHOW TRADE ACCOUNT IN SURPLUS, WHILE UNEMPLOYMENT RATE CLIMBING STEADILY TOWARD 4 PERCENT. END SUMMARY.

2. GOF BATTENS DOWN FOR STORMY SEAS -

BUFFETED BY ECONOMIC WINDS FROM SEVERAL QUARTERS (MOSTLY ADVERSE; SEE PARA. 3 BELOW), GOF APPEARS PREPARED TO RIDE OUT STORMY SEAS FOR SOME TIME WITHOUT RELENTING IN ITS STABILIZATION PROGRAM. PUBLIC STATEMENTS IN RECENT WEEKS BY PRESIDENT GISCARD D'ESTAING AND FINANCE MINISTER FOURCADE (SEE REFTEL AND BELOW) HAVE AMOUNTED TO REJECTION OF GROWING PRESSURE ON GOF TO RE-STIMULATE ECONOMY IN MEANINGFUL WAY WHILE INFLATIONARY FIRES STILL SMOLDERING. SUCH STIMULATIVE MEASURES AS HAVE BEEN ANNOUNCED AMOUNT TO "SMALL STEPS", WITH APPARENT OBJECTIVE OF APPEASING HARD-PRESSED SECTORS OF INDUSTRY YET NOT SERIOUSLY RELAXING GOF'S TIGHT GRIP ON DEFLATIONARY SCREWS. THIS WAS CASE ON MARCH 17, WHEN FINANCE MINISTER FOURCADE ANNOUNCED SIX NEW MEASURES "TO RE-STIMULATE FRENCH ECONOMY" BY ATTACKING DECLINE IN CONSTRUCTION INDUSTRY AND PROMOTING INDUSTRIAL INVESTMENTS (SEE PARIS 6939). ANNOUNCEMENT ENCOUNTERED ALMOST IMMEDIATE DERISION FROM BUSINESS AND LABOR: FRANCOIS CEYRAC, HEAD OF FRENCH PATRONAT (ROUGHLY EQUIVALENT TO NAM), TERMED MEASURES "MODEST AND TIMID", WHILE MAJOR TRADE UNION CFDT ACCUSED GOF OF "NOT TAKING SITUATION SERIOUSLY."

ON MARCH 20, FOURCADE TOOK UP "GISCARDIAN" DEFENSE OF ECONOMIC POLICYMAKING BY GOF, WHICH HE SAID (SOMEWHAT DISINGENUOUSLY) "APPLIES MODERN METHODS OF MANAGEMENT, REJECTS VAGUE TALK, AND GIVES PRECISE OBJECTIVES AND AUTHENTIC RESULTS." FRANCE'S CHOICE NOT ONE OF INFLATION OR UNEMPLOYMENT, HE SAID; RATHER, PRICE STABILITY AND BALANCE-OF-PAYMENTS EQUILIBRIUM FOREMOST OBJECTIVES, AS PREREQUISITES TO "CONTINUOUS, NOT EPISODIC GROWTH."

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UNDAUNTED BY CONTRADICTIONS INHERENT IN POLICY OF ADMINISTERING STRONG MEDICINE TOGETHER WITH MILD STIMULANTS, GOF STILL HOLDING ON TO SLENDER HOPES FOR REAL GROWTH IN 1975 OF SOME 3 PERCENT. WHILE SCALED DOWN CONSIDERABLY FROM EARLIER FORECASTS, OFFICIAL OBJECTIVE PINNED ALMOST ENTIRELY ON HOPES FOR UPSWING DURING SECOND HALF IN FRANCE'S MAJOR TRADING PARTNERS (ESPECIALLY GERMANY); AS SUCH, IT GOES AGAINST LOGIC OF

LATEST OECD REPORT ON EUROPEAN ECONOMIC OUTLOOK  
RELEASED MARCH 18 - WHICH, IN CASE OF FRANCE, FORECAST  
1975 REAL GROWTH OF ONLY 2 PERCENT (COMPARED TO 5-6  
PERCENT ANNUAL AVERAGE IN RECENT YEARS).

3. BANK OF FRANCE REPORTS GRIM OUTLOOK FOR 1975 -

ANALYSES OF ECONOMIC TRENDS IN FRANCE ARE NEITHER  
INFREQUENT NOR ENTIRELY CONSISTENT

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FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 7782  
INFO USDEL MTN GENEVA  
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(INTERNAL OR WITH OTHERS); NEVERTHELESS, OVERALL TONE  
OF CURRENT REPORTS MARKEDLY MORE PESSIMISTIC THAN  
HERETOFORE. AT TURN OF YEAR TENTATIVE SIGNS REPORTEDLY

DISCERNED THAT DOWNTURN IN FRENCH ECONOMY WAS "BOTTOMING-OUT", WITH IMPROVING TRADE ACCOUNT, MODERATING TENDENCIES ON INFLATION AND UNEMPLOYMENT FRONTS, AND EMERGING HOPEFULNESS AMONG BUSINESSMEN AND INDUSTRIALISTS (SEE PARIS 2151, 4673 AND REFTEL). AMONG THESE, ONLY TRADE FIGURES CONTINUE IMPROVEMENT (PARA. 5 BELOW), BUT POSSIBLY MOST TELLING SIGN IS LATEST REPORT BY BANK OF FRANCE - CUSTOMARILY MOST OPTIMISTIC OF ALL ANALYSTS, AND INVARIABLY IN STEP WITH GOF - WHICH NOW FORESEES "STAGNATION" AT PRESENT LEVELS FOR MONTHS TO COME IF NOT FOR ENTIRE YEAR.

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ACCORDING TO BOF SURVEY CONDUCTED DURING FEBRUARY, INDUSTRIAL PRODUCTION CONTINUES TO DECLINE WHILE BUSINESSMEN REPORT "PERSISTENT SLUGGISHNESS OF DEMAND." SOME RESPONDENTS OF BOF SURVEY INDICATED PLANS TO REDUCE THEIR OPERATIONS, NOT ONLY FOR MARCH BUT FOR FOLLOWING MONTHS AS WELL, CONVINCED THAT ANY STIMULATIVE MEASURES TAKEN BY GOF COULD NOT YIELD ANY NEAR-TERM IMPROVEMENT IN BUSINESS SITUATION. ONGOING DECLINE IN UNFILLED ORDERS PLUS MOUNTING UNUSED CAPACITY REPORTEDLY KEEPING DAMPER ON INVESTMENT INTENTIONS.

AMONG SECTORS, UNFILLED ORDERS FOR INTERMEDIATE GOODS DECLINED FURTHER IN FEBRUARY FROM "ALREADY VERY LOW" LEVELS WHILE INVENTORIES OF FINISHED GOODS CONTINUED TO GROW; PRODUCTION CUTBACKS WERE INDICATED FOR MARCH, ESPECIALLY IN BASIC METALLURGY. IN CAPITAL-EQUIPMENT SECTOR, OVERALL ACTIVITY REMAINS BELOW LEVEL OF 12 MONTHS PREVIOUSLY; UNFILLED ORDERS STILL AT LOW LEVEL - ALTHOUGH THEY REPORTEDLY ASSURE "SEVERAL MONTHS OF PRODUCTION" (AT WHAT LEVEL NOT SPECIFIED). OUTLOOK FOR CONSUMER-GOODS SECTOR STILL MIXED, WITH THE ONE HOPE HELD OUT THAT HOUSEHOLD PURCHASES MAY REGISTER NORMAL SEASONAL PICKUP DURING COMING MONTHS.

OVERALL LEVEL OF DOMESTIC DEMAND REMAINED SLUGGISH IN FEBRUARY - BUT FOREIGN ORDERS, WHICH PREVIOUS BOF REPORTS HAVE REGULARLY DESCRIBED AS "SUBSTANTIAL", ARE NOW TERMED "ERRATIC, DUE TO AN INCREASINGLY SEVERE INTERNATIONAL ECONOMIC SITUATION."

#### 4. UNEMPLOYMENT RATE PUSHING 4 PERCENT -

THE NUMBER OF REGISTERED UNEMPLOYED (SEASONALLY ADJUSTED) ROSE TO 727,500 AT END OF FEBRUARY, WHILE UNFILLED JOB OFFERS DROPPED PRECIPITOUSLY TO 121,700 - THE LOWEST LEVEL IN FOUR YEARS. ON BASIS OF AVAILABLE

DATA, WE CALCULATE SEASONALLY-ADJUSTED UNEMPLOYMENT  
IN FEBRUARY AT ROUGHLY 3.8 PERCENT OF LABOR FORCE  
(SEE PARIS A-535 OF 1974 FOR METHODOLOGY).

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LABOR MARKET INDICATORS  
(SEASONALLY ADJUSTED; IN THOUSANDS; END-OF-MONTH)

	SEP	OCT	NOV	DEC	JAN	FEB
REGISTERED						
UNEMPLOYED	498.5	558.3	629.3	660.0	698.6	727.5
OFFERS	179.5	154.0	132.7	144.4	153.9	121.7

UNFILLED JOB  
OFFERS      179.5 154.0 132.7 144.4 153.9 121.7  
  
EST. OVERALL  
UNEMPLOYMENT  
(AS PERCENT OF  
LABOR FORCE) 2.6 2.9 3.3 3.4 3.6 3.8

AS SEEN FROM TABLE, STEADY CLIMB IN UNEMPLOYMENT RATE HAS SHOWN NO SIGN OF ABATING SINCE IT BEGAN LAST FALL (ESTIMATED RATE HAD HOVERED AT 2.3-2.4 LEVEL FROM JANUARY THROUGH AUGUST 1974). MOST DISTURBING ASPECT, HOWEVER, IS SHARP DROP OF SOME 20 PERCENT IN JOB VACANCIES DURING FEBRUARY.

WHILE THIS INDICATOR HAD BEGUN TO SHOW IMPROVEMENT FROM OCTOBER TO JANUARY (A TREND INTERPRETED AS PRECURSOR TO DECLINE IN ACTUAL UNEMPLOYMENT; SEE PARIS 4673), LATEST FIGURES INDICATE EVEN THIS FAINT HOPE HAS NOW EVAPORATED.

5. TRADE SURPLUS REGISTERED IN FEBRUARY -

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R 212256Z MAR 75

FM AMEMBASSY PARIS

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FRANCE'S TRADE BALANCE WAS IN SURPLUS BY 894 MILLION FRANCS IN FEBRUARY (SEASONALLY ADJUSTED, FOB-FOB), WITH EXPORTS EXCEEDING IMPORTS BY NEARLY 5 PERCENT. ON BASIS OF NEW METHOD OF ADJUSTMENT FOR SEASONAL VARIATIONS, FEBRUARY TRADE SURPLUS WAS FIRST RECORDED IN OVER A YEAR. SEASONALLY ADJUSTED EXPORTS INCREASED 2 PERCENT FROM JANUARY TO 19.7 BILLION FRANCS IN FEBRUARY; IMPORTS DECLINED 3 PERCENT TO 18.8 BILLION FRANCS.

FRENCH FOREIGN TRADE  
(NEW SEASONAL ADJUSTMENT; IN  
BILLIONS OF FRANCS, FOB-FOB)

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SEP OCT NOV DEC JAN FEB

IMPORTS 21.0 20.5 20.1 19.6 19.4 18.8

EXPORTS 19.5 18.3 19.9 19.5 19.3 19.7

BALANCE -1.5 -2.2 -0.2 -0.1 -0.1 0.9

WITH FEBRUARY FIGURES (SEASONALLY ADJUSTED, NEW BASIS), IMPORTS REGISTERED DECLINE FOR SEVENTH STRAIGHT MONTH WHILE EXPORTS HAVE DEVELOPED UNEVENLY OVER SAME PERIOD. THUS, WHILE TRADE BALANCE ON NEW BASIS APPEARS TO HAVE DEVELOPED MORE FAVORABLY FROM OCTOBER THROUGH FEBRUARY, IMPROVEMENT MAY NOT BE VERY DURABLE AS DECLINE IN IMPORTS (GENERALLY ASSOCIATED WITH SLOWDOWN IN FRENCH ECONOMY) CAN BE EXPECTED EVENTUALLY TO BEGIN LEVELLING OFF AT SOME CRITICAL LEVEL OF "ESSENTIAL" IMPORT REQUIREMENTS; WHEN THAT POINT REACHED, TRADE ACCOUNT COULD RETURN TO RED IN BIG WAY UNLESS EXPORT PERFORMANCE IMPROVES. APPARENTLY REFLECTING THOSE FEARS, FOREIGN TRADE MINISTER NORBERT SEGARD ON MARCH 14 DESCRIBED FRANCE'S FOREIGN TRADE POSITION AS "VERY FRAGILE", WITH ABSOLUTE GOF PRIORITY BEING GIVEN TO PROMOTION OF SALES ABROAD.

6. FRENCH COMMODITY IMPORT BILL CONTINUES DECLINE -

THE COST OF PRIMARY PRODUCTS IMPORTED BY FRANCE DECLINED 1.5 PERCENT IN FEBRUARY, CONTINUING DOWNWARD TREND IN SUCH PRICES FOR TENTH MONTH. OVERALL INSEE (NATIONAL STATISTICS INSTITUTE) PRICE INDEX FOR PRIMARY PRODUCTS IMPORTED BY FRANCE (BASE 1968 AS 100) DROPPED FROM 176.9 IN JANUARY TO 174.3 IN FEBRUARY, RETURNING TO LEVEL LAST RECORDED IN SUMMER OF 1973.

7. 1974 HOUSING STARTS OFF BY 1 PERCENT -

TOTAL HOUSING STARTS IN 1974 WERE 550,800 OR 1 PER-CENT BELOW THE 1973 LEVEL, ACCORDING TO LATEST GOF STATISTICS. UNITS COMPLETED TOTALLED 530,000, AN INCREASE OF 6 PERCENT FROM PREVIOUS YEAR.

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8. OTHER REPORTS SUBMITTED DURING PERIOD -

TELEGRAMS

5995 DIMMER PROSPECTS FOR FRENCH  
ECONOMY                    MARCH 7, 1975

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6063 BANK OF FRANCE OFFICIAL

ON EXCHANGE MARKETS MARCH 10, 1975

6758 ADB ANNUAL MEETING MARCH 17, 1975

6939 EXPORT PROMOTION INCLUDED

IN SIX SMALL STEPS TO

STIMULATE FRENCH ECONOMY

ANNOUNCED BY FINANCE

MINISTER MARCH 18, 1975

AIRGRAMS

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A-110 FRENCH FOREIGN EXCHANGE  
HOLDINGS MARCH 7, 1975

A-120 FRENCH RESERVES IN  
FEBRUARY 1975 MARCH 13, 1975

A-123 FRENCH FOREIGN EXCHANGE  
HOLDINGS MARCH 14, 1975

A-126 TRADE WITH COMMUNIST AREAS MARCH 17, 1975  
RUSH

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, ECONOMIC STABILITY, ECONOMIC PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 21 MAR 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750100-0498  
**From:** PARIS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750327/aaaaayho.tel  
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**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 9  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 PARIS 5992, 75 MARCH 7, 75 1975  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** woolfhd  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 23 SEP 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <23 SEP 2003 by greeneet>; APPROVED <30 DEC 2003 by woolfhd>  
**Review Markings:**  

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS  
**TAGS:** EALR, EFIN, EGEN, FR  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006